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FEDAYEEN - US - IVORY COAST: President Houphouet-Boigny says he has received from Palestinian leader Yasir Arafat a private proposal for the US regarding a Palestinian settlement. As reported to the US ambassador in Abidjan, the message from Arafat, to be conveyed to the United States, asserts that

--the Palestine Liberation Organization in no way seeks the destruction of Israel, but accepts its existence as a sovereign state;

--the PLO's main aim at the Geneva conference will be the creation of a Palestinian state out of the "Palestinian part of Jordan" plus Gaza;

--Arafat is personally prepared for a phased development from a confederation of Israel and the new state to a simple federation. He is not ready to divulge this to other Arab states, but he claims he has the support of all of the PLO except for its extremist wing;

--Arafat has chosen the Ivorian President as the exclusive intermediary for this message because Houphouet enjoys the full confidence of the United States.

[redacted]

[redacted] The Ivorian ambassador to the US is to carry this message when he returns to Washington early next week.

(continued)

[redacted]

C This may well be a genuine effort by Arafat to approach the United States directly through an intermediary who can be trusted by both sides. A Palestine federated with Israel is not the kind of proposal the PLO leader would want to make through an Arab channel, and Arafat would have to oppose the concept publicly unless it were put forward during negotiations as the last chance for a Palestinian-run state. [redacted]

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ARAB FINANCE ACTIVITY: Six Arab states have agreed to form an investment company to finance Arab agricultural and shipping ventures. The company is being hailed as the first project motivated by the Arab League's decision last week to repatriate foreign deposits for investment in Arab countries. The six countries involved are Egypt, Saudi Arabia, Kuwait, Abu Dhabi, Qatar, and Sudan.

The relatively small capitalization of the enterprise--about $230 million to be drawn primarily from private funds--will not lead to any noticeable drawdown in Arab holdings in the US or Western Europe. Similar companies have appeared in the Middle East over the past five years. [redacted]

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USSR: Despite claims of a cutback, Soviet defense spending is not likely to decrease in 1974.

In a speech to the Supreme Soviet on 12 December, Finance Minister Garbuzov said that the defense budget for 1974 will amount to 17.6 billion rubles, a decline of about 2 percent from the 17.9 billion ruble budget which has held constant since 1969. According to the announcement, military spending for the coming year will decline to 9.1 percent of the national budget as compared to 9.9 percent in 1973.

Intelligence estimates, however, project a continuation of the gradual growth in Soviet spending evident since 1969. These estimates are based on calculations of costs of observed changes in military and space programs and forces. This growth is expected to quicken in 1975 and 1976, when the USSR begins deploying ICBM systems currently under development.

The budget released in December of each year is the only official statement made by the USSR on defense spending. The public figure, however, is not a reliable indicator of either the level or trend in defense spending because its coverage is not known and may change from year to year without explanation. One major item not included in the announced defense budget figure is military research and development. Most of these expenditures are funded under the "science" category of the state budget, which has grown rapidly over the last few years. A science figure for 1974 has not yet been announced.

In terms of political purpose and effect, the announced defense budget is intended to convey the impression to domestic and foreign audiences that the USSR is confident that continued progress will be made in detente with the US.

* * * *

Planning Chief Baibakov indicated that the Soviet economy has made a strong recovery from the

dismal performance in 1972. However, production this year was still below the pace required by the original five-year plan (1971-75). The good harvest this year is reflected in the 1974 plan, which is more proportionately in line with the 1971-75 targets than this year's, but most 1974 goals are still below those originally planned.

Baibakov announced that industrial output grew 7.3 percent in 1973, compared with 6.5 percent in 1972. Agriculture made the greatest advance, growing by 9.1 percent, compared with a drop of 4.6 percent the previous year. The grain harvest is now said to be "more than 220 million tons," some 5 million tons higher than the figure announced by party chief Brezhnev at the end of October. Baibakov's claim must be discounted heavily because it does not take into account excess moisture and extraneous material; net usable output is still an impressive 165 million tons, 31 million tons more than in 1972.

Baibakov blamed the lagging growth during the first three years of the five-year plan on last year's poor weather, the slow growth in labor productivity, only partial use of industrial capacity, and delayed commissioning of new facilities.

This year's success in agriculture will allow the leadership to resurrect its original commitment to consumer welfare. Mainly because of the poor 1972 harvest, 1973 consumer goals had been cut drastically. In 1974, the growth rate planned for consumer goods industries will once again be larger than the rate planned for the industrial materials and machinery sectors, as called for in the five-year plan. Both of these rates, however, are below those originally planned. In an effort to keep demand more in line with consumer goods supply, the growth in workers' wages next year will be limited to 3.6 percent compared with the 4.5-percent annual increase planned for 1971-75.

(continued)

Baibakov assured his audience that the new plan "ensures a normal and uninterrupted supply of the national economy and population with fuel and electricity," although the major energy goals for 1973 will not be met and the gap will be even larger between 1974 goals and the original 1971-75 plan. However, because the economy is not growing at the planned pace, the reduced energy supplies should be generally adequate to meet domestic needs and to provide substantial amounts for export. [redacted]

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WESTERN EUROPE: Gasoline rationing will go into effect next month in the Netherlands, Sweden, and Norway--the first European countries to take this step.

In the Netherlands, four gallons a week will be allowed for private cars, irrespective of size. Extra rations will be available for trucks and for persons who use their cars on the job.

To avoid a black market, The Hague will allow ration coupons to be sold. Rules governing such sales are being formulated; surplus coupons probably will be sold at post offices at a set price.

Coupons will be valid for six months. The government estimates that rationing and maintenance of a 60-mile-an-hour speed limit will result in a 30-percent reduction in gasoline use by private vehicles.

The Dutch Government has ordered cutbacks in illumination, including a 40-percent reduction on roads and streets. It is also discussing staggered work hours with labor unions and employers so that public transportation will not be overloaded during peak periods.

In Sweden, the government has distributed ration cards good for 21 gallons a month for every privately owned vehicle. Commercial and professional vehicles will receive extra rations. Norway probably will soon publish its plans for rationing, which is scheduled to go into effect on 7 January.

The UK and Ireland, meanwhile, have taken steps preliminary to gas rationing. London already has distributed ration coupons to post offices, but has not yet decided to issue them. [redacted] 25X1

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UK: Prime Minister Heath yesterday announced a program to ration electricity in order to cope with power shortages that he blames on work slowdowns by key unions associated with energy supplies.

He ordered industries that work around the clock to cut electrical consumption by 35 percent beginning 17 December. Electric power will be available for other commercial users for only 5 days between 17-31 December and after that for three days a week.

Heath told a packed Parliament that production cutbacks by the coal miners and power engineers, plus a go-slow strike by railroad engineers, were the main cause of the nation's depleted fuel stocks. Already faced with the Arab oil squeeze, Heath said emergency measures were necessary to prevent large-scale disruption of power supplies. More than 70 percent of Britain's electrical power is estimated to be produced from coal, and most of the coal is carried by rail.

Heath unveiled his plan after the executive committee of the coal miners' union voted yesterday to continue the overtime ban that has cut coal production by 30-40 percent in the past month. The miners, like the railmen and power engineers, are demanding wage hikes beyond the seven-percent limit set by the government's anti-inflation laws.

As the crisis deepens, the union's strategy could backfire. A number of union leaders are concerned that massive unemployment will threaten the livelihood of union members. The government may also respond to the crisis by freezing wages rather than loosening its pay code.

Chancellor of the Exchequer Anthony Barber will announce additional belt-tightening measures on 17 December. A parliamentary debate on energy problems has been scheduled the following day. At that time the legislators are expected to approve Heath's request for an extension of his state-of-emergency powers.

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Heath admitted yesterday that the austerity program represented a retreat from his plans to expand the economy. The reduced work-week will affect industrial output and accentuate the slowdown in Britain's growth rate that has been apparent in recent months. The steel board has announced, for example, that steel production will be down 50 percent by next week, and may stop completely by next month.

The condition of the country's economy was dramatized yesterday by a government release that indicated a mammoth trade deficit. November's deficit amounted to $645 million and October's deficit was corrected upward to a record $871 million. [redacted]

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FOR THE RECORD*

Egypt: Negotiations last week between Cairo and the Bechtel Corporation resolved most of the financial difficulties facing Egypt's SUMED pipeline project. Construction, however, cannot be started as long as the Israelis occupy transportation routes leading to the southern terminal site. Unless a construction date is set, preliminary user contracts and an Export-Import Bank financing commitment will expire at the end of 1973. [redacted] 25X1

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[redacted]

**These items were prepared by CIA without consultation with the Departments of State and Defense.*

NATIONAL INTELLIGENCE ESTIMATES

The United States Intelligence Board on 5 December 1973 approved the following national intelligence estimates:

SNIE 57-1-73	The "Short-Term Prospect for Cambodia through the Current Dry Season--May 1974" [redacted] 25X1
SNIE 30-3-73	"The Arab-Israeli Situation and the Oil Crisis" [redacted] 25X1
NIE 1-1-73	"The World Oil Crisis: Political and Economic Ramifications for the Producers and Consumers" [redacted] 25X1

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